

Five-Year Forecast

Fiscal Years 2016 - 2020



Finance Department
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Cover photo by Julie Moore

City of Woodburn

Five-Year Forecast

For Years

2015-16 to 2019-20

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Introduction

City of Woodburn Background

The City of Woodburn is located within Marion County in the populous northern Willamette Valley, approximately halfway between the larger urban areas of Portland and Salem. The population of the region within a 30-mile drive of Woodburn is 2.1 million, according to the American Community Survey.

The economy of the immediate area around Woodburn has historically been centered on agricultural and forest products, with the City serving as the manufacturing and services hub for these two sectors. Food processing and agricultural services continue to be very important parts of the local economy. Another important factor in the local economy, as nearby urban populations have grown, Woodburn has adapted by attracting a variety of new businesses ranging from metal fabricating, warehousing, regional retail and a wide range of service-providing businesses.

Woodburn has changed significantly in population since it was first incorporated in 1889. The City originally began as a small farming and manufacturing community. Beginning in the 1960s Woodburn became a suburb of Salem and Portland with its proximity to I-5. Over the past 18 years, Woodburn has grown 74%. As of the census of 2000, 20,100 people resided in Woodburn. As of 2010, its population had risen to 24,080 — a net rise of 19.8% over 2000 — ranking it the 21st most-populated city in Oregon. The per capita income was \$16,249 (compared to \$26,702 for the state), and the median income for a family was \$41,818, or 16% less than the state median household income.

Marion County's adopted population projections indicate Woodburn will grow to 37,216 by 2030. This factors in a growth rate of 20.4% (average annual growth rate). Using this growth rate in 2019 Woodburn's population will be 26,541, an increase of 2,461.

Purpose of the Forecast

The Five-Year Financial Forecast takes a forward look at the City's most significant fund revenues and expenditures with the purpose of identifying financial trends, shortfalls and issues so the City can proactively address them. For the purposes of the financial outlook, we strive to look at operating revenues (those revenue sources not subsidized by beginning fund balance) versus operating expenses. Future results are projected based on the City's current service levels, policies and unavoidable future impacts. Existing fund balances will be considered available for one-time expenditures only, whenever possible.

The financial forecast serves as a basis of the City's financial plan for its primary operational funds, which influence changes to the City's budget policy. The intent of this financial forecast is to project each operating fund's financial position under certain assumptions. The forecast then sets the stage for the budget process, aiding both the City Administrator and City Council in establishing priorities and allocating resources appropriately. Responsible financial stewardship is imperative to provide for the current and future needs of the community. Forecasting is one of the most powerful tools the City has available to help make informed financial decisions that will ensure the City's future vitality and economic stability.

Forecast Methodology

The City of Woodburn's approach to forecasting is to apply a conservative philosophy that neither overstates revenues nor understates expenditures. Economic forecasting is not an exact science. Rather, it is dependent upon the best professional judgment of the forecaster. To enhance the accuracy of projections, the City identifies factors that contribute to the changes in revenues and expenditures, such as development, inflation, interest rates and known future events that will affect operations. Forecasting of operating costs embraces the concept of status quo. This concept assumes that the current level of service will continue for the next Five-Years with cost changes based on inflationary increases. This provides a baseline economic estimate from which reductions or increases in service levels can be determined. To the extent certain reductions or additions are anticipated, they are noted within the fund section of this report. Exceptions to the status quo assumption are noted at the beginning of each fund.

Because capital improvements are based on available resources, a long-term forecast is not useful for budgeting purposes. Master plans governing our long-term investments in Water, Sewer, Transportation, Storm Water, and Parks have been established. Projects are prioritized based on the master plans, but are scheduled based on available resources which, due to variations in growth rates, are not readily predicted. To the extent possible, operations are funded first and remaining resources are allocated to fund capital improvements. This frequently means that improvements are delayed to achieve the matching funding source. Improvements which are too expensive to be paid from net resources are assumed to be funded via bonded debt, although in practice, this is a rare occurrence. For these reasons, capital construction funds and the related special revenue funds, are not included in this forecast.

Utilizing general ledger records and reports, audited financial statements, water and sewer master plans/rate studies and published City budgets, each of the funds listed below were examined to identify patterns in revenues, expenditures and cash balances that may indicate financial instability or threats to sustainability of current operations.

Executive Summary

This report is a combined effort of all City staff. Each department provided insight into future year operating revenues and costs. The goal in assembling this report is to reveal trends, highlight financial issues and provide suggestions and options. We look forward to feedback and input from the City Council and other interested parties on these issues.

Because the fund section provides detailed information, the executive summary will focus on the most significant issues facing the City.

Overview

The forecast model predicts that most operating funds will have sufficient resources to meet expenses over the five-year period. A few of the fund graphs depict a declining undesignated balance of resources. While this may seem alarming, it is just an indicator. In reality, the City would not submit a proposed budget where costs exceed all available resources. The value of the forecast is that it allows us to predict where problems might occur and provides the City adequate time to take corrective action before the situation becomes a crisis.

Economic and Demographic Assumptions

As a result of the economic downturn and slow pace of recovery, Woodburn's population is expected to continue a slow pace of growth in the near future. Oregon as a whole is expected to grow with a modest annual population growth rate

of 1.1% to 1.25% between 2014 and 2020. Oregon and the City of Woodburn's economic condition heavily influence the population growth. Woodburn's economy determines the ability to retain local workforce as well as attract job seekers. These factors will weigh heavily upon the City's ability to continue to provide a high level service to the public.

Issues in Coming Months

- Stabilization of General Fund Property Tax Revenue
- Continued focus on stabilizing General Fund finances
- The Urban Growth Boundary (UGB) issue leaves a lot of uncertainty about future development and future demands on water, sewers, streets and building activities

Issues in the Coming Year

- Negotiation of AFSCME contract
- Continued refinement of Capital Construction financing and budgeting processes
- Interchange improvement

Issues Beyond One Year

General Fund

New demands for services will need either new resources or program cuts in other areas. Currently, police coverage is 1.4 officers per 1,000 residents (recommended coverage is 1.5 per 1,000 residents) with the addition of funding for 3 new officers. The challenge for the City will be to continue to provide a high level of service with only modest increases in revenues. Demand for park and recreation services are expected to continue to increase due to increases in population and put additional strain on the limited resources of the General Fund.

In addition, City Hall and library maintenance and improvements continue to be deferred.

Water

The operational fund is in relatively good shape, but that is largely at the expense of setting aside rate revenue for future capital expansion. Demand for new services has been low and slowly building. UGB expansion is uncertain and what capacity improvements are needed is unknown.

Transit

Historically, the General Fund provided \$151,000 annually to the Transit Fund; that support has declined to \$116,000, resulting in reductions in service hours and routes in recent years. The transit operation is aggressively seeking grants to fund operations and maintain and/or increase current levels of service, but a restoration of some of the General Fund subsidy may be necessary to sustain the program in the long term. New capital investments in vehicles and shelters are largely grant funded.

Sewer

Major expansion at the Wastewater Treatment Plant (WWTP) has been on hold waiting for a decision from DEQ regarding the water quality limits for temperature. This brings uncertainty for the Sewer Fund because project costs will be more than estimated due to the multi-year delay. Also, the UGB expansion is uncertain and what capacity improvements are needed is unknown.

Streets

Due to economic conditions, Street SDC revenues have remained flat and are expected to remain flat. The City has committed to provide \$8 million to ODOT for the interchange project. The first \$2.5 million was paid in 2004 for right-of-way and property acquisition. The remaining \$5.5 million, less credits for work the City did directly on the project, is due at the end of construction and funds are being held in reserve. The reserve amount and flat revenues have a direct impact on the City's ability to provide for street capital projects at this time.

Issues for Administrative Attention

Not all of the issues that arise from the forecast need Council direction. Those listed here can be dealt with at an administrative level. The purpose of this forecast as noted previously is to point to areas of concern and allow staff and council to direct resources and focus to areas of need. This forecast is also intended to drive the City's financial policies and assist in formulating needed financial policies to guide staff and council in making informed decisions.

Based on forecasted concerns, the following general financial policies are being or have recently been implemented:

- Develop a capital improvement plan that identifies priorities and timeframes for undertaking capital projects and provides a financing plan for those projects. The plan, including both capital and related operating costs, should project at least Five-Years into the future and should be fully integrated into the overall financial plan.
- Periodically evaluate the performance of programs and services.
- Identify cost-effective opportunities where performance, efficiency and effectiveness measures can be developed and included as part of the basic budget materials and budget document.
- Monitor, measure and evaluate capital program implementation, especially for projects funded by restricted funds.
- Identify programs that should be self-sufficient.
- Review of established fees to ensure cost recovery is sufficient.
- Establish and adopt cost-recovery policies for all other services with fees and charges not established by state statute. Opportunities for new fees and charges will need to be determined as part of this process.
- Continue to monitor indirect cost recovery for Internal Services Funds and evaluate the effectiveness of these charges. These indirect costs should be evaluated and updated periodically.

General Fund

Variances from Status Quo Assumptions

- None

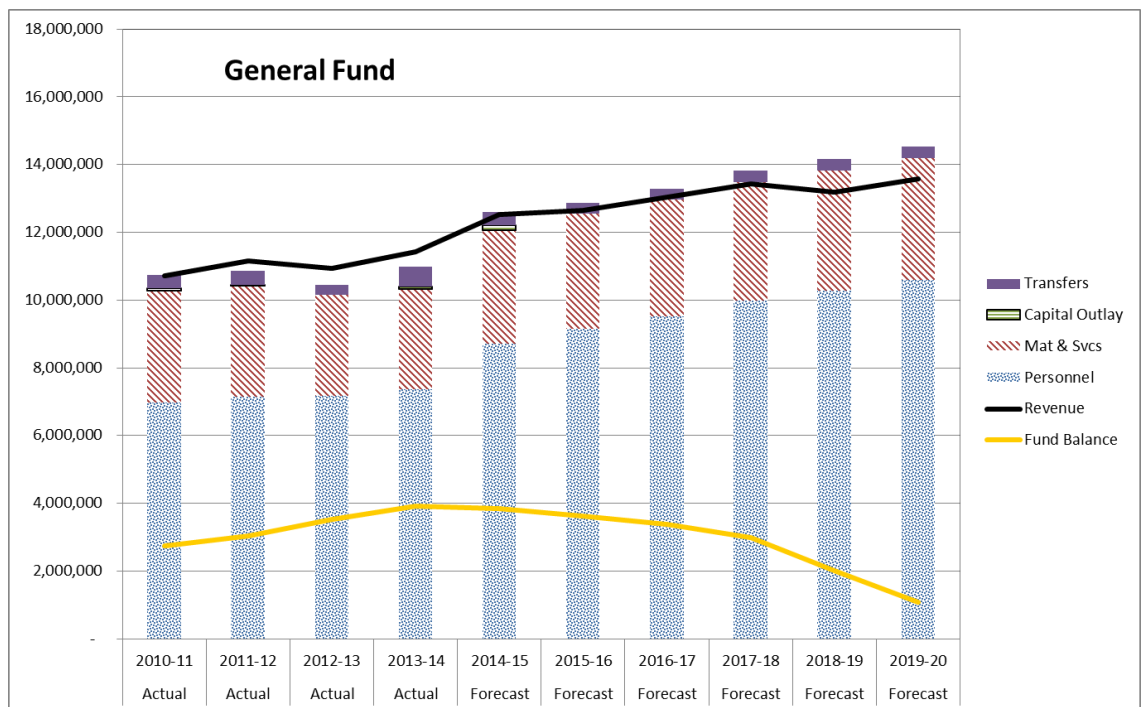
Key Assumptions

- PERS Rate Increase effective 7/1/2015
- General Fund Right-of-Way Charge on Water & Sewer revenue ends FY 2017-18

Operating Position

Property taxes account for almost 69% of the annual revenues in the General Fund. Tax growth is expected to be minimal over the forecast period. Property taxes could increase if there are significant new developments within City limits. Franchise fees are the second largest revenue in this fund equating to 9% of total resources.

Franchise fees are taxes based on the



gross revenues of utilities that use the City's right-of-way. Private utilities doing business in the City of Woodburn include Portland General Electric, Northwest Natural Gas, Qwest, United Disposal, Wave Broadband, Woodburn Ambulance and others. The only way this source of revenue will increase is if the private utilities revenues derived from Woodburn residents also increase. Intergovernmental is the third largest type of revenue at 7%. This type includes state and federal grants, and state cigarette, liquor and revenue sharing. Overall, revenues are projected to increase at a modest 2% rate for the forecast period.

Capital Projects — From Operating Revenues

The City has a number of deferred maintenance projects, and several are reaching a critical need. The 2014-15 budget includes funding for the most critical needs, such as city hall roof and HVAC replacement, a significant mower replacement and other facilities-related needs. However, the City Hall Roof and HVAC replacement project have been postponed due to lack of available funding.

Potential Impacts and Issues

There are potential future demands that could increase costs in this fund; however, there are no available resources for these expansions. Potential future demands are explained below.

Parks & Facilities Maintenance

As demand continues to grow for the public's use of City parks, additional burdens are being placed on the City's General Fund to provide enhanced services. Additional staff hours are required for clean up and maintenance of these parks. With the completion the Greenway Trail, Centennial Park and Legion Park projects staff will be asked to assume an increased maintenance burden. These potential cost increases are not included in the forecasts. Facilities maintenance continues to be a challenge with aging buildings requiring increasingly expensive repairs and maintenance.

Police Staffing

Crime of all types is on the rise in Woodburn. While population continues to increase, there has not been a proportional increase in development resulting in increased tax revenues. This phenomenon places an increased burden on the demand for police services without commensurate revenue increases.

Funding Alternatives

As costs grow there needs to be a corresponding reduction in other costs or new resources need to be generated. Possible new resources are presented below. Staff does not take a position for or against these options. They are presented for informational purposes.

General Right-of-Way Charge

The City levies a franchise fee on private utilities for the use of the City right-of-way. For the first time in FY 2013-14, the City levied this franchise fee on its own utilities. A 5% general right-of-way charge was approved for a five-year period. Council will evaluate the need and effectiveness of this fee prior to the sunset date of June 30, 2018.

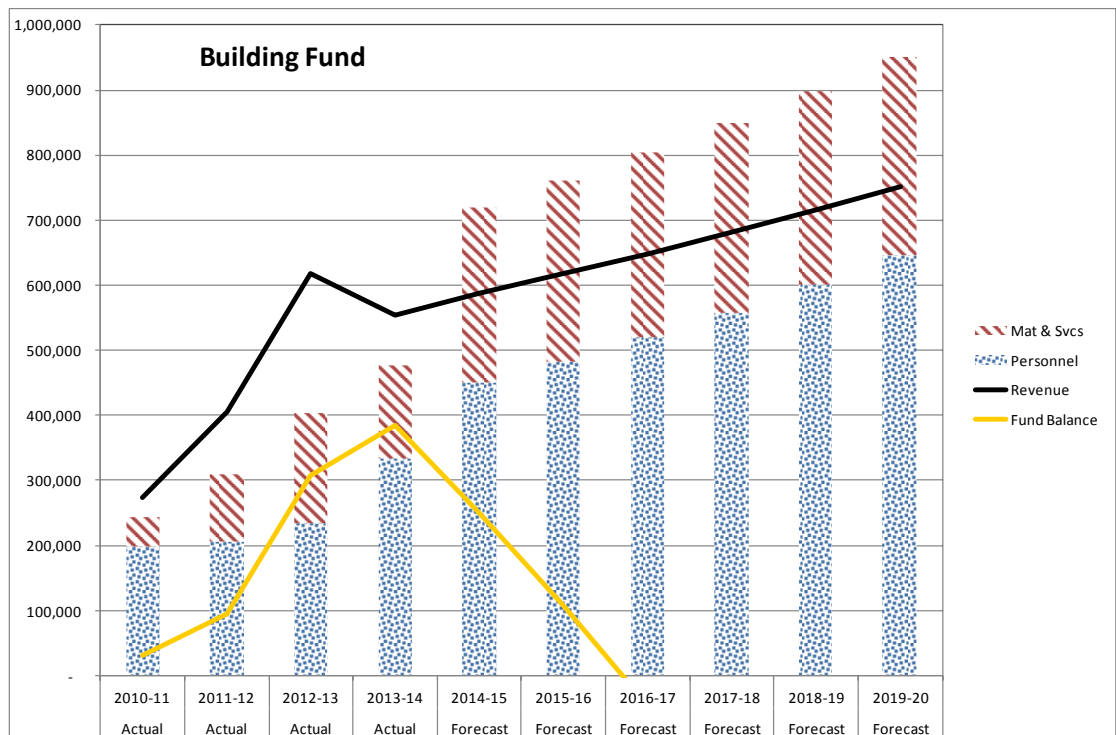
Building Fund

Variances from Status Quo Assumptions

- Permit revenues are based on slowly increasing activity, primarily in the residential housing market. There has been a rise in permits for residential housing and we expect increased commercial development in FY 2014-15.
- Additional Plans Examiner – Building Inspector II was approved in FY 2014-15 Supplemental Budget

Operating Position

Revenues are based on permits issued for new development and redevelopment that historically ebbs and flows. Permits are collected prior to the work being done, therefore cash balances exist to pay for services to be performed in the future. This graph depicts the effects of the recent downturn in new development, starting at the end of the recent recession (pre-2010) and increasing building



activity over the intervening years. Future revenues are based on estimates of when specific projects might begin. Costs reflect cuts and reductions already in place and estimated inflationary influences.

Potential Impacts and Issues

Delays in developers submitting plans or starting construction will impact the bottom line. The City will closely monitor the actual revenues against the forecast and will take corrective action if necessary. This fund is projected to have sufficient resources to carry the program through the forecast horizon. A return to a normal level of development necessitated a return to historic staffing levels. The graph above shows a declining fund balance, but the balance will be monitored and corrected before the situation becomes severe. Revenues continue to be ahead of budget year to date, but it is uncertain whether the pattern will continue throughout the year the revenue projection was maintained at a conservative level. Actual revenue for the coming year will be monitored very closely.

The Building Fund, of course, will be significantly impacted if the UGB is not expanded, as the City is running out of residential and industrial lots. There are quite a few commercial building opportunities that could sustain revenues for several years though.

Transit Fund

Variances from Status Quo Assumptions

- Award of capital grants to replace one full size bus and provide four new bus shelters

Key Assumptions

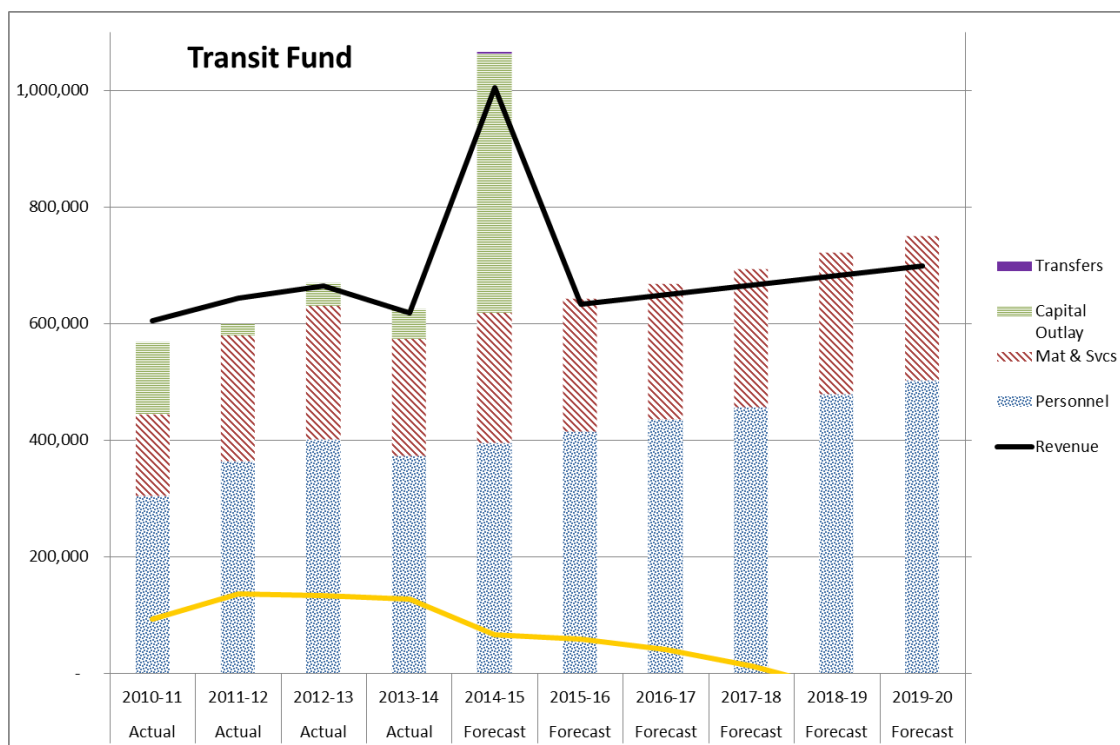
- Ability to continue to obtain grant funding
- General Fund contribution remains stable for forecast period
- Fares remain consistent for forecast period
- Maintenance of operating hours

Operating Position

The City's transit system provides bus operations as well as Dial-a-Ride services for disabled citizens. The transit operation is funded by a contribution of \$116,000 from the General Fund, approximately \$30,000 in fare revenue with the balance made up from state and federal grants.

The large increase in capital outlay (and revenue) for FY 2014-15 is due to the receipt of a federal grant for a new

heavy duty transit bus. This bus is expected to have a longer service life and reduced maintenance costs when compared to the current fleet of medium duty buses. The City continues to monitor the availability of federal funds for this program and manages staffing and service levels to available resources.



Capital Projects — From Operating Revenues

Replacement of buses and vans is done as-needed and historically has occurred when grant funding is available.

Potential Impacts and Issues

Should a large, unanticipated curtailment of federal grant revenue occur, this program could potentially be drastically curtailed or discontinued as replacement funding is not anticipated to be available from the General Fund. In addition, the declining fund balance displayed at the end of the forecast horizon may necessitate a return to historical funding levels for General Fund support of the transit fund.

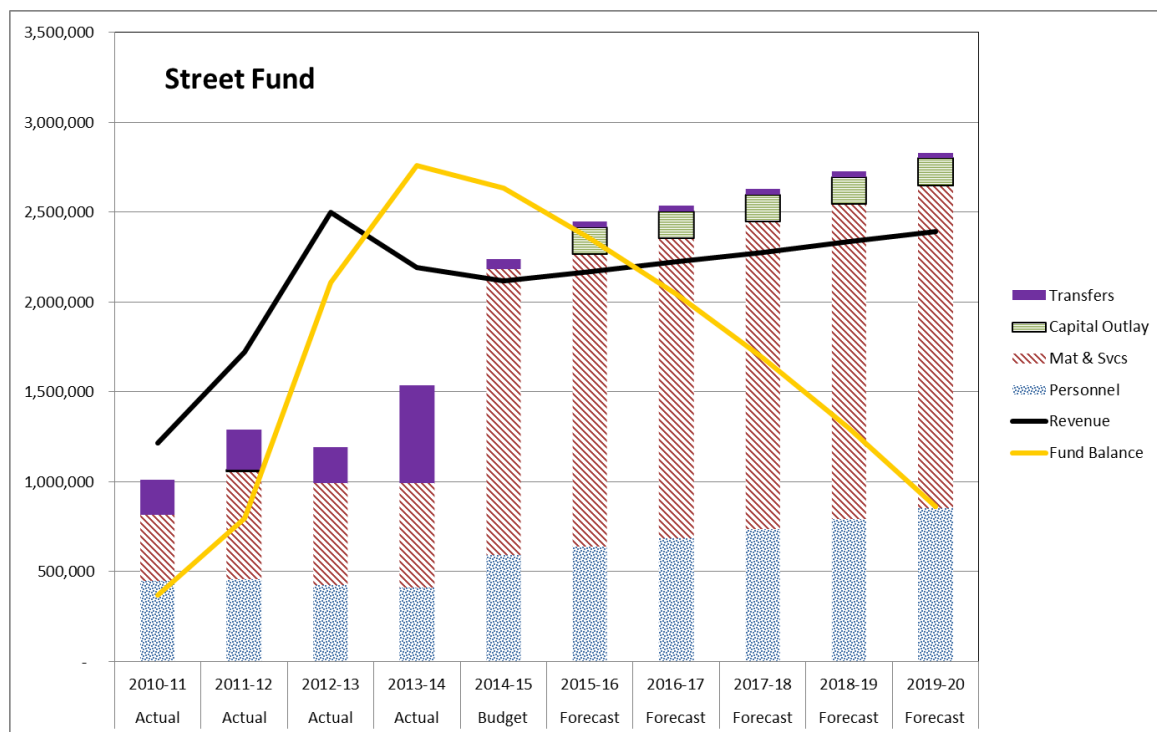
Street Fund

Variances from Status Quo Assumptions

- None

Operating Position

Gas taxes distributed by the state are the primary resource for this fund. Since January 2011 increases in vehicle title and registration fees and an increase of 6 cents per gallon have helped increase state gas tax revenues. Revenues should continue to do so for the next several years due to the phase-in of title, registration and weight fees.



Street projects that had previously been budgeted as capital projects have been reevaluated and are now funded as operational expenses in the Street Fund. These include resurfacing projects that do not significantly reconstruct the roadbed, increase lane size or capacity.

Capital Projects — From Operating Revenues

Projects related to, but not a part of, the I-5 Interchange Project, were funded in FY 2013-14. This is the cause of the sharp increase in transfers for FY 2013-14. In FY 2014-15 a change was made to correctly classify maintenance activities such as resurfacing streets as maintenance and not capital and budget these maintenance activities within the Materials and Services budget instead of Capital Outlay.

Potential Impacts and Issues

Due to the increase in the gas tax, registration and other fees and the shifting of shared revenues (to cover street lighting expenses) to this fund, financing remains relatively stable for the forecast period.

Water Fund

Variances from Status Quo Assumptions

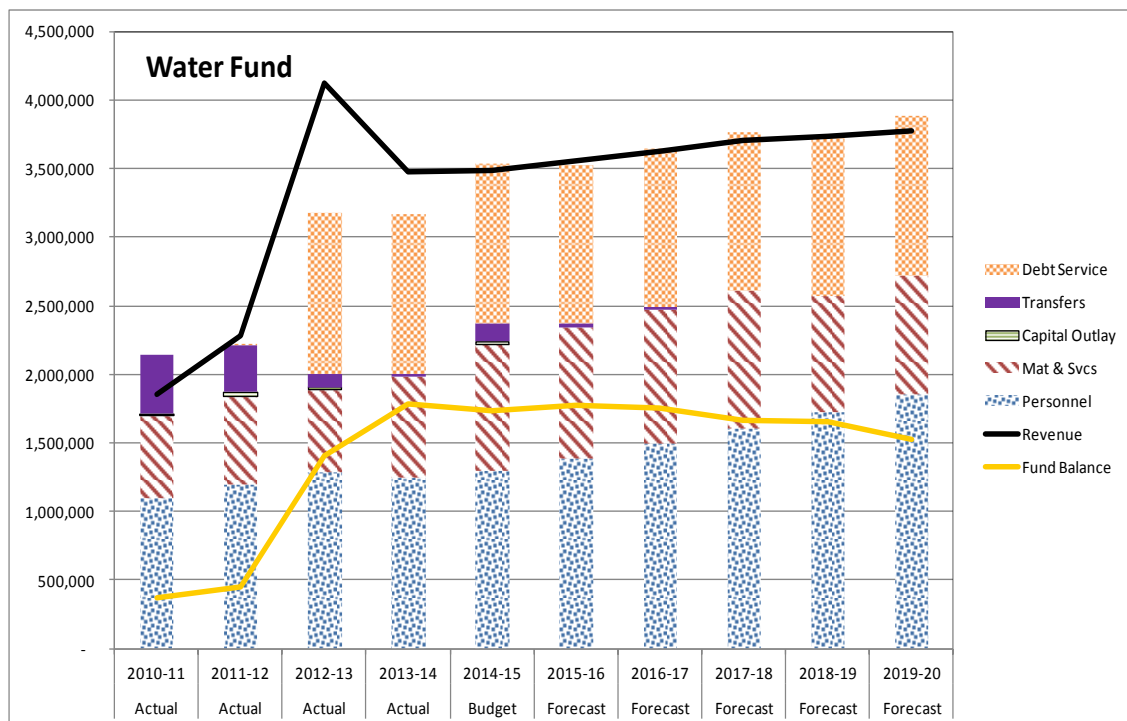
- None

Operating Position

Revenues and treatment costs are driven by consumption, which due to increased conservation efforts by the City should continue to decline over the forecast period.

An update to the rate study and Master Plan may reveal the need for a rate adjustment. Management is monitoring these cost progressions and is

working on recommendations for any revenue short falls in ensuing fiscal years.



Potential Impacts and Issues

As personnel, material and services costs conservation efforts continue to increase levels of service will become difficult to maintain. Management is recommending the 2001 Water Master Plan and water rates be reviewed and updated as needed.

UGB expansion is uncertain and what capacity improvements are needed is unknown. This will greatly impact decisions in regard to future capital and rate structures.

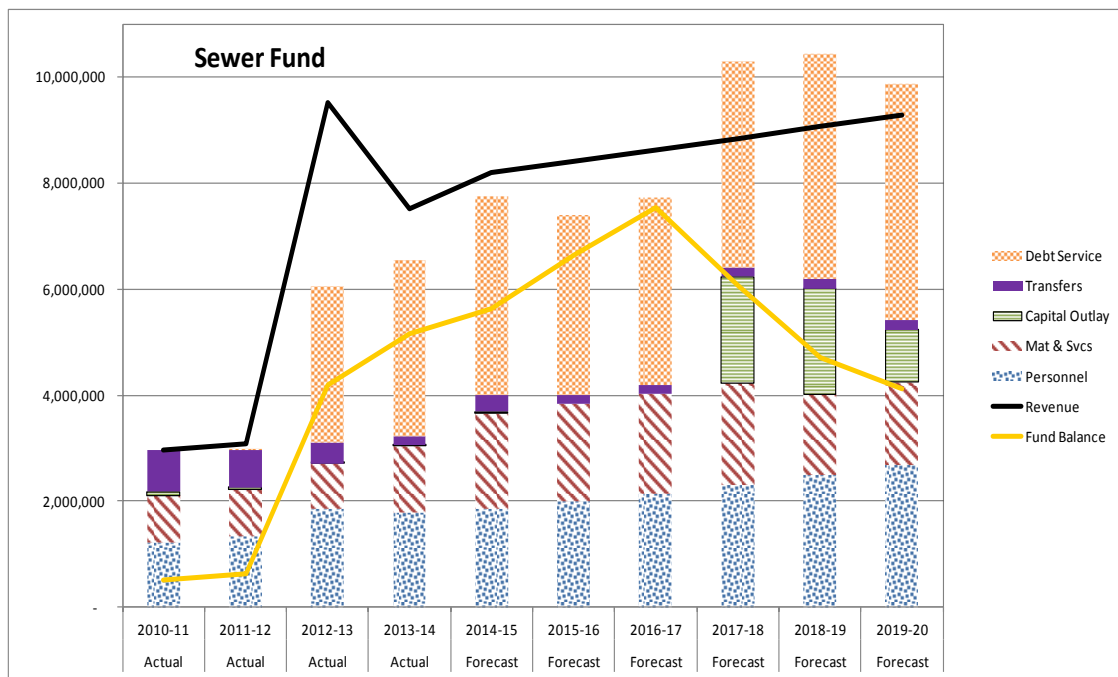
Sewer Fund

Variances from Status Quo Assumptions

- None

Operating Position

In 2007 the City entered a Mutual Order Agreement with the Department of Environmental Quality that called for significant improvements to the City's wastewater treatment plant and system as part of the approval of the City's wastewater treatment permit. The City implemented those improvements beginning in FY 2008-09



as part of a 20-year plan — the total cost of those required improvements will be \$94 million. To date, the City has issued approximately \$43 million in loans/bonds for the project. The expansion for temperature and ammonia is currently on hold until a decision is made by DEQ. This brings uncertainty for the Sewer Fund because project costs will be more than estimated due to the multi-year delay.

To fund the ongoing capital projects the City Council approved rate increase implemented in FY 2008-09 with the initial increases of 12.5%. The last increase was effective in FY 2014-15 at 9.5%.

In FY 2014-15, a change was made to correctly classify maintenance activities such as repairs of sewer lines as maintenance and not capital. The City accounted for these maintenance activities within the Materials and Services budget instead of Capital Outlay.

Potential Impacts and Issues

Adopted rates are providing adequate revenues to fund operations for the forecast period — management continues to monitor revenues and expenses closely to ensure rates remain adequate.

UGB expansion is uncertain and what capacity improvements are needed is unknown. This will greatly impact decisions in regard to future capital and rate structures.

Remaining Funds

Capital Construction Funds

Capital Construction Funds are not included in this forecast because their activity is limited by funds available. A more robust capital construction plan and reporting mechanisms were implemented for development during the 2014-15 budget cycle.

Remaining Funds

The remaining 22 funds have dedicated revenue sources, are for a specific purpose, or have nominal activity. These funds have not been included as part of the Five-Year Forecast.

Major Assumptions – Revenues

Operating Revenues

The City received about \$30.3 million in operating revenues last fiscal year.

Revenue Source	FY2014 Actual
Charges for Goods & Services	12,372,458
Taxes	8,775,555
Intergovernmental	2,700,916
Miscellaneous Revenue	3,340,575
Franchise Fees	1,992,415
Licenses & Permits	565,565
Fines & Forfeits	569,621
Other Financing Sources	50,232
	<u>30,367,338</u>

Revenue Assumptions

Property Taxes — General Fund

Taxes are based on assessed value which is determined by the Marion County Assessor. Generally, assessed values grow by 3% per year as allowed by the state constitution. There is no correlation between real market value and assessed value. The City must also allow for the effects of compression, which in the recent years has resulted in the loss of significant revenue. The City's tax rate is permanently set at \$6.0534 per \$1,000 of assessed value, but is subject to limitation under Ballot Measures 5 and 50 limitations. As a result of these factors, the City estimates property tax growth to be 1% for FY 2014-15 and up to 2% for the forecast horizon. The current report on property tax revenues shows the City is expected to receive about \$675,000, or 9% more than budgeted this fiscal year but it is not expected to be the trend.

Franchise Fees — General Fund

These fees are assessments on the utility companies' gross receipts for using the City's right-of-way. Rates vary by type of utility ranging from 3% to 8%. Franchise fees are assessed on telecommunication, cable television, natural gas, electric utilities, ambulance and garbage. These revenues are expected to grow at a slow rate (less than 2%) for the forecast period.

Charges for Goods & Services — Utility User Charges

Water: The forecast assumes a 2% annual increase due to new development.

Sewer: The forecast assumes a 2.5% annual increase for growth. Rate increases through FY 2014-15 was adopted by the City Council. The last rate increase was July 1, 2014 and was 9.5%.

Gas Taxes

The increase to the State Gas Tax is reflected in the forecast period. The forecast estimates a growth of 3% per year.

Building, Planning and Engineering Permits

Permit revenues are based on identification of specific developments with assumptions based on which fiscal year the development is likely to begin.

Other Resources

Bond Sales

None planned.

Transfers In — Operating Funds

This category relates to services one department charges another fund for services provided. These types of transfers are forecasted to remain stable over the forecast period.

Major Assumptions – Expenditures

Personnel Services

Combined personnel services are assumed to increase by 5% to 7.5% per year. Wages are expected to increase via cost of living adjustments of 0% to 3% plus an average 3% step increase. Benefit changes are related to retirement and health insurance. Insurance cost increases have been curtailed by the implementation of high deductible plans for the AFSCME bargaining unit and unrepresented employees.

Material and Services

Impacts of inflation are assumed to remain minor over the five years, remaining stable over the forecast period at 2% to 2.5%. Management has been aggressive in managing costs in this category to help offset growth in personnel services costs and has been successful in holding spending well under budgeted amounts.

Capital Equipment

The Public Works Fund maintains a replacement reserve for capital equipment replacement and is funded via transfers from the Water, Streets and Sewer funds. The General Services Fund replaces equipment on an as-needed basis as funding allows.

Debt Service

Estimates are based on amortization schedules for outstanding debt issues.

Other Uses

Transfers Out

This is the counterpart to the transfers in category. Transfers out from operating funds are primarily for administrative services provided by the Information Services and Building Maintenance Funds. Transfers out from capital project funds are primarily for engineering services and project administration provided by departments except within the General Fund.

Glossary

Capital Projects

New construction and major repairs to the City's fixed assets

Operating Position

Recurring revenues and recurring expenditures

Potential Impacts

Refers to issues and challenges that are in addition to the status quo. The intent is to inform the reader of economic matters that might occur during the forecast period.

Recurring Expenditures

The expense portion of status quo, predictable and on-going costs

Recurring Revenues

The resource portion of status quo, predictable and ongoing revenues

Revenues

Includes both recurring revenues and transfers in

Status Quo

The current level of services

Transfers In

Internal charges by General Fund for services provided to other funds

Urban Growth Boundary (UGB)

A regional boundary around the City's perimeter used by local governments as a guide to zoning and land use decisions to control urban expansion onto farm and forest lands.